Conflicts of Interest

onflicts of interest can pop up at any time. The best advice is to perform a preliminary conflicts check before the initial consultation with a potential client, and then another, more comprehensive, conflicts check after the initial consultation but before accepting the representation. Finally, another conflicts check should be performed each time a new party enters into the legal matter. If a conflict is found and the conflict is one that is not consentable, or is consentable, but the consent was not obtained, then the lawyer must decline the representation, or if already representing the client, withdraw from the representation. Otherwise, the lawyer may face grave consequences, including disqualification, mandatory withdrawal, disciplinary actions, reversal of proceedings, forfeiture of fees, and malpractice claims. A non-engagement letter or a disengagement letter (see pages 30 and 32) should be sent to document such declination or termination of the representation.

Types of Conflicts

Generally, conflicts of interest fall into two categories. Conflicts may arise from directly adverse representations or where the representation of a client is materially limited as a result of the lawyer's other responsibilities or interests. A directly adverse conflict arises when you are called upon to represent one client against another client. A lawyer cannot represent two opposing parties in the same litigation. Moreover, a lawyer may not act as an advocate in one matter against a client the lawyer represents or represented in some other matter. Former clients are an excellent example of this type of conflict.

Even when there is no directly adverse conflict, a conflict of interest may nevertheless exist if there is a significant risk that the lawyer's representation may be materially limited as a result of the lawyer's responsibilities to other clients, to third persons, or as a result of the lawyer's own personal interest.

- This type of conflict may arise in the context of dual or multiple representations (*i.e.*, representing a husband *and* a wife, or a buyer *and* a seller, or two or more clients forming a business entity).
- It also may arise in the context of a financial interest (*i.e.*, owning a percentage of a client's business or making an agreement to limit malpractice liability to a client).
- Further, a conflict may arise in the context of a hidden interest (i.e., romantic involvement with a client). You should not have sex with your clients. Nor should you enter into any business transactions with your clients, or knowingly acquire an ownership or other pecuniary interest adverse to your clients.¹
- You should not enter into an agreement to limit your malpractice liability without first making sure that your client is represented by independent counsel.

You should closely scrutinize the circumstances of each representation to determine whether the clients have "differing interests" that may call for different attorneys representing each client. It is also your duty to reject or disengage from any representation which is going to cloud your independent professional judgment and not allow you to render objective advice.

Consentable Versus Non-Consentable Conflicts

You must independently and objectively decide whether a conflict is consentable. "When a *disinterested* lawyer would conclude that the client should not agree to the representation under the circumstances, the lawyer involved cannot properly

¹ Most legal malpractice insurance policies exclude from coverage claims where the insured attorney has a greater than 10 percent interest in his client's business.

ask for such agreement or provide representation on the basis of the client's consent." Annotated Model Rule of Professional Conduct at p. 124 (ABA 2d ed. 1992) (emphasis added). When in doubt, the attorney should decline the adverse representation.

While clients may consent to representation notwithstanding a conflict, some conflicts are non-consentable. When the lawyer is representing more than one client, the question of consentability must be resolved as to each client. Consentability is typically determined by considering whether the interest of the clients will be adequately protected if the clients are permitted to give their informed consent to a representation burdened by a conflict of interest. Representation is prohibited if under the circumstances the lawyer cannot reasonably conclude that the lawyer will be able to provide competent and diligent representation as required by Rules of Professional Conduct 1.1 (see page 81) and 1.3 (see page 82). For this reason, conflicts where clients are aligned directly against each other in the same litigation are non-consentable. Other conflicts are non-consentable because applicable law prohibits the representation. For example, under federal criminal statutes, certain representations by a former government lawyer are prohibited, despite the informed consent of the former client.

Consentable Conflicts

Not all representations containing the types of conflicts described above have to be declined or terminated, if the potential or existing client gives informed consent. The following types of transactions can be entered into, but only with the client's informed consent:

► Business transaction or acquiring pecuniary interest adverse to the client.

You may not enter into a business transaction or acquire an ownership or other pecuniary interest adverse to the client unless:

- 1. the transaction is fair and reasonable to the client;
- 2. the terms are fully disclosed and given to the client in writing, in a manner clearly understood by the client;
- the client is advised in writing well in advance of the transaction to seek advice of independent counsel; and
 the client consents in writing.

► Using information relating to a client's representation.

You may not use information relating to the representation of an existing or former client to the disadvantage of the client, unless the client has been fully informed and consents to its use.

► Compensation from another party.

You may not accept compensation for representing a client from any person other than the client unless the client gives informed consent, or the compensation is provided by contract with a third person, such as an insurance contract or a prepaid legal service plan; there is no interference with a lawyer's independence or professional judgment or with the client-lawyer relationship; and none of the client's confidential information is revealed.

► Multiple client settlements.

You may not enter into an aggregate settlement of the claims of multiple clients unless each client gives informed consent in a writing signed by the client.

► Former clients.

If you formerly represented a client in a matter, you may not represent another person in the same or a substantially related matter if that person's interests are materially adverse to the interest of the former client, unless your former client gives informed consent, confirmed in writing.

► Imputation of conflicts of interest.

While lawyers are associated in a firm, none of them shall knowingly represent a client when any one of them practicing alone would be prohibited from doing so by Rules 1.7 (see page 84) or 1.9 (see page 87), unless the prohibition is based on a personal interest of the prohibited lawyer and does not present a significant risk of materially limiting the representation of the client by the remaining lawyers in the firm.

> Special conflicts of interest for former and current government officers and employees.

You may not represent a private client in connection with a matter in which you participated personally and substantially as a public government officer or employee, unless the government agency gives its informed consent, confirmed in writing, to such representation. Additionally, your firm and associates may not represent this client, unless you have been screened from any participation in the matter, you are not given any part of the fee, and your former government agency is notified immediately in writing.

► Former judge, arbitrator, mediator or other third-party neutral.

You may not represent a client in connection with a matter in which you participated personally and substantially as a judge, other adjudicative office, or law clerk to such a person, or as an arbitrator, mediator or other third-party neutral, unless all parties to the proceeding give informed consent, confirmed in writing. Additionally, your firm may not represent this client, unless you are screened, you are not given any part of the fee, and written notice is given to the appropriate tribunal.

► Organization as client.

If an organization is your client, you may not represent any of its directors, officers, employees, members, shareholders, or other constituents unless the organization consents. If you represent an organization, you may also represent any of its directors, officers, employees, members, shareholders, or other constituents subject to the provisions of Rule 1.7 (see page 84). If the organization's consent to the dual representation is required by Rule 1.7, the consent shall be given by an appropriate officer of the organization.

► Financial assistance to clients.

Financial assistance to clients is allowed under certain circumstances. See Rules 1.4(c) and 1.8(e) and discussion on page 39.

Non-Consentable Conflicts

Some conflicts simply cannot be waived. Not even a very detailed consultation and a subsequent written client consent evidencing the client's desire for your representation will do. Consequently, you must not enter into certain prohibited representations and transactions with your clients. These prohibited transactions include, but are not limited to:

- Preparing an instrument giving yourself or any person related to you any substantial gift from your client, including a testamentary gift, unless you and your client are related.
- ► Negotiating an agreement giving yourself literary or media rights to a portrayal of the representation.
- ► Directly adverse representation in the same matter.
- Despite the prohibition in Rule 1.8(e) (see page 85) against providing financial assistance to clients, it is permitted under certain circumstances. (See page 39 in the Fees, Billing and Trust Accounts section.)
- Agreeing prospectively to limit your liability to a client for malpractice unless the client is independently represented in making the agreement or settle a claim or potential claim for malpractice liability with an unrepresented client or former client without first advising the client in writing that independent representation is appropriate.
- Acquiring a proprietary interest in the cause of action or subject matter of the litigation, except you may acquire a lien authorized by law to secure your fees/expenses and contract with your client for a reasonable contingent fee in a civil case.

Informed Consent

You've determined that there is a conflict and that the conflict is consentable. What do you do next? (Remember, if the conflict is non-consentable, your job is finished except for the mailing out of the non-engagement or disengagement letter.) First, you must conclude that the conflicting representation will not inure to the detriment of your client or clients. The Rules of Professional Conduct require that this decision must be made using objective, reasonable and independent standards. Second, each client must consent to the representation after being informed of the conflict. And the consent that is required is "informed consent." New Rule 1.0 Terminology paragraph "e" (see page 81) defines informed consent as the agreement by a person to a proposed course of conduct after the lawyer has communicated adequate information and explanation about the material risk of and reasonably available alternatives to the proposed course of conduct. Informed consent is voluntarily and knowingly granted after full disclosure of all relevant information that likely would influence the client's decision.² So what should be included in the client's informed consent letter?

- 1. The full disclosure of all relevant information transmitted in writing to the client in a manner reasonably understood by the client.
- 2. An acknowledgment that the client was given an opportunity in writing to seek the advice of independent counsel in consenting to the conflict.
- 3. The client's consent in writing.

² Schneider, Harry H. Jr., "An Invitation to Malpractice," ABA's Standing Committee on Lawyer's Professional Liability.

- 4. An acknowledgment that all affected clients were sent the informed consent letter.
- 5. If applicable, an assurance that the disqualified lawyer is being screened from any participation in the matter and will not be given any part of the fee, nor reveal any protected confidential information.

See page 31 for a sample informed consent letter.

The following Rules of Professional Conduct should be reviewed when embarking on a conflicts of interest check:

- ► Rule 1.7 Conflict of Interest: Current Clients (see page 84);
- ► Rule 1.8 Conflict of Interest: Current Clients: Specific Rules (see page 84);
- ► Rule 1.9 Duties to Former Clients (see page 87);
- ► Rule 1.10 Imputation of Conflicts of Interest: General Rule (see page 87);
- ► Rule 1.11 Special Conflicts of Interest for Former and Current Government Officers and Employees (see page 87);
- ► Rule 1.12 Former Judge, Arbitrator, Mediator or Other Third-Party Neutral (see page 88); and
- ► Rule 1.13 Organization as Client (see page 88).

Additionally, all conflicts of interest checking systems should:

- ► Be integrated with other office systems;
- ► Provide conflicts data for everyone in the office;
- ➤ Check for varying spellings of names;
- ► Show any party's relationship with the client; and
- ► Remind lawyers to document all conflict search results with memos in the file.

Conflicts of Interest Checklist

- All attorneys and staff must disclose necessary information concerning potential conflicts relating to past clients at prior places of employment, but not confidential information. (See page 29.)
- Prior to the initial consultation, the potential clients must disclose all name information, including their other names (*i.e.*, maiden, other marital, etc.), opposing parties' names, and associated persons' and/or entities' names. (See pages 26-28.)
- □ Thereafter, at the initial consultation, the potential clients must disclose more detailed information in order for a more comprehensive conflicts check to be made. (See pages 26-28.)
- □ The attorney then performs the conflicts check, reviewing the master client list, the former client list, and the subject matter list, if applicable.
- The Conflicts Search Results Memo must be circulated to all attorneys and staff for their review and input. (See page 29.)
- □ Follow up with any attorney or staff member who fails to return the Conflicts Search Results Memo within 24 hours of distribution. (See page 29.)
- Analyze the results of the circulated memo and of the preliminary and comprehensive conflicts checks to determine whether there exists a conflict.
- □ If no conflict is found, the new client is entered into the conflict system and sent an engagement letter.
- □ If a conflict is found and the attorney is not allowed to accept the representation, send a non-engagement letter explaining the conflict. (See page 30.)
- □ If a conflict is found and the attorney is allowed to accept the representation:
 - disclose the circumstances which give rise to the actual or potential conflict;
 - disclose a description of actual/foreseeable adverse effects of those circumstances;
 - if the potential conflict arises out of dual or multiple representation, then disclose that no attorney-client privilege exists as between the clients;
 - if the potential conflict arises out of a past representation (*i.e.*, past representation of adverse party in an unrelated matter), then disclose all pertinent non-privileged facts necessary for the potential client to make an informed decision as to whether to waive the conflict.
- □ Obtain written informed consent after advising the potential client to seek independent legal advice regarding the waiver. (See page 31.)¹
- □ If a conflict is found, all necessary disclosures are made, and written informed consent is obtained, accept the representation by sending an engagement letter.²
- □ Once representation has been accepted, perform another conflicts check each time a new party enters into the legal matter. If the new party creates a conflict, withdraw and send a disengagement letter. (See page 32.)

¹ Remember, some conflicts cannot be waived, even though an informed consent was obtained.

² However, we recommend that you do *not* accept the representation because informed consents do not cure all conflicts and there may still be a violation of the ethical rules.

Additional Resources for Conflicts of Interest

Book and Articles

- ► ABA, The Business Lawyer, Conflict of Interest Issues, 50 Bus. Law 1381 (1995).
- ► Lawyers Liability Review, Vol. 14, No. 10 (Oct. 2000).
- Mallen, Ronald E., Smith, Jeffrey M., Legal Malpractice No. 2, Chapter 14, Fiduciary Obligations in General; Chapter 15, Fiduciary Obligations Conflicting Interests; Chapter 16, Fiduciary Obligations Adverse Representation (4th ed. 1996).
- National Reporter on Legal Ethics and Professional Responsibility, Kansas Formal and Informal Opinions, Opinion No. 95-04, Conflict of Interest; Adverse Representation (University Publications of America).
- Ciolino, Dane S., Louisiana Professional Responsibility Law and Practice 2004, 2nd Edition (Louisiana State Bar Association, 2004).

Case Management (Conflicts) Software

- ► Case Master 10, Software Technology, Inc., (402)423-1440
- ► Amicus Attorney V, Gavel & Gown Software, (800)472-2289
- ► Abacus Law, Abacus Data Systems, (800)726-3339
- CLS/Summit, Computer Law Systems, (800)932-9038
- ► Thomson Elite, (800)977-6529
- Tussman Program 7.1, Tussman Programs, Inc., (800)228-6589
- ► TimeMatters, Data.Txt Corp., (800)328-2898
- ► Northshore Technology Center, (985)893-7062

Conflicts of Interest Search Form

(Privileged and Confidential)

The following must be completed by the potential client, attorneys and staff:

1. Obtain all the information on the potential client:

Name
Other names
Nicknames
Address
Spouse's name
Spouse's other names
Spouse's nicknames
Address (if different)
Opposing parties' names
Associated persons or entities

Potential client stops here and Preliminary Conflict Check performed. If no conflict is found, potential client completes § 2 and then attorneys and staff complete the remainder.

2. Determine which area of law is involved and write in the names, nicknames or other names of the associated persons/ entities involved:

If litigation matter, who is the:
Insured
Plaintiff(s)
Defendant(s)
Insurer
Tutor/minor
Expert witness(es)

If divorce m	atter, who	is the:
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Client		
Spouse		
Child(ren)		
What is/are the age/ages of the child(ren)?		

Continued

If corporate/business/real estate matter, who is the:

Owner(s)/spouse(s)
Buyer(s)
Partner(s)
Seller(s)
Officer(s)
Directors
Shareholder(s)
Subsidiaries/affiliates
Key employees
Property address(es)
Any opposing party in a transaction
If probate matter, who is the:
Deceased
Spouse/child(ren)/heir(s)/legatee(s)
Succession representative
Attorney for succession representative
If worker's compensation matter, who is the:
Injured worker
Employer
Insurer
If estate planning matter, who is the:
Testator/testatrix
Spouse/child(ren)/heir(s)/legatee(s)
Trustee

Continued

If criminal matter, who is the:

	Accused			
	Victim(s)			
	Witness(es)			
	Co-Defendant(s)			
	If bankruptcy matter, who is the:			
	Client			
	Creditor(s)			
	Spouse			
<u>Re</u>	sults of Search			
Co	nflict System Search done by			
Tit	le Relationship to firm			
Ins	tructions:			
	Duplicate of this form and attached Conflicts Search Results Memo routed to and signed by all attorneys and staff.			
	No conflict found; entered as new client into conflict system and engagement letter sent by			
	Conflict found, analyzed, and client accepted (explain reasons)			
	Engagement and Informed Consent letters sent by			
	Conflict found, client not accepted, non-engagement letter sent by			

Conflicts of Interest Search Results Memo

1. Circulate this form to all attorneys and staff, making sure to attach the completed Conflicts of Interest Search Form.

2.	Give a deadline for the return of the memo:							
3.	Have all attorneys and staff answer all of the following questions:							
	a. Do you have any business interest with:							
	Client? Yes No							
	Anyone associated with client? Yes No							
	Anyone associated with persons/entities? Yes No							
	b. Do you have any personal interests with:							
	Client? Yes No							
	Anyone associated with client? Yes No							
	Anyone associated with persons/entities? Yes No							
	c. Have you had any current or past relationship, affiliation or association with this client? YesNo							
	d. Do you know of any reason we should not represent this client? Yes No							
If you have answered yes to any of the above, please give details below:								
Si	ignature of Attorney/Staff: Date:							

Sample Conflict of Interest Non-Engagement Letter

June 20, 20-

Mr. John J. Non-Client 123 Main Street Anytown, Louisiana 45678

> Re: Conference on June 19, 20—; Potential Personal Injury Claim against Mr. Smith.

Dear Mr. Non-Client:

I enjoyed meeting with you recently regarding your potential claim against Mr. Smith. As we discussed, I have a possible conflict of interest. Although we did not discuss the particulars of your potential claim, it does not appear to be appropriate under the ethical rules for our firm to represent you. We must therefore decline to represent you. Under these circumstances, you should consult other counsel immediately to determine your rights and interests. Please keep in mind that you may be facing important deadlines, so you should not delay in contacting other counsel.

Thank you for offering us this engagement. If we may be of service to you in other matters in the future, we hope you will contact us then.

Sincerely,

FIRM NAME

Attorney Name

Sample Conflict of Interest Informed Consent Letter

June 20, 20—

Mr. John J. Potential Client 123 Main Street Anytown, Louisiana 45678

Dear Mr. Potential Client:

Below is your Informed Consent of our firm representing you in a business acquisition, to which you may agree after careful consideration of all the facts, even though there are actual and potential conflicts of interest. At this time, we wish to remind you of the relevant information with respect to the potential conflict, which you should use to make your decision.

► This representation will

► This representation will also

► "_____."

We previously recommended to you in writing that you seek independent legal advice regarding the conflicts. Having followed that advice, you sought independent legal counsel and were apprised of conflicts that exist and may arise. Nevertheless, if you knowingly and voluntarily consent to representation by the firm, (FIRM NAME), and waive any and all actual and potential conflicts of interest, please sign below and return this letter to us.

[Optional]

[Additionally, Attorney Smith has been disqualified from taking any role in the representation of your case and will be screened from any participation in the matter. He will not be given any part of the legal fee, nor will he be allowed to reveal any of your confidential information he obtained while working at his prior law firm.]

All affected clients have been put on notice by being sent a copy of this informed consent letter.

Sincerely,

FIRM NAME

Attorney Name

Client Signature

Client Name Typed

Date _____

Sample Conflict of Interest Disengagement Letter

June 20, 20-

Mr. John J. Former Client 123 Main Street Anytown, Louisiana 45678

> Re: File Subject or Matter Description Calcasieu Parish, Louisiana

Dear Mr. Former Client:

Thank you for allowing us to be of service to you in the above-captioned matter. The joining of A.B. Sea, Inc. in your lawsuit has created a conflict of interest for our firm because one of our partners, (Attorney Name), has been and continues to be A.B. Sea's primary counsel in other matters. Your continued representation would result in an adverse conflict of interest.¹ Therefore, we must withdraw from representation of you at this time. Additionally, Mr. Wisdom will refer A.B. Sea to independent counsel for representation in your matter.

We are enclosing your entire file with this letter, as well as a check in the amount of \$750.00, representing a refund to you of the amount of the advance deposit which has not been earned. You should contact other counsel immediately to further pursue (and protect) your interests in this matter. Your new counsel should have adequate time to serve your best interests, and you should provide said counsel with your file for necessary review. A complete status of the matter with deadlines noted is attached.

Our final invoice for service rendered is enclosed. It was a pleasure serving you, and we wish you the best in all your future endeavors.

Sincerely,

FIRM NAME

Attorney Name

Enclosures

(CAVEAT: Make sure any withdrawal/termination is in compliance with Rule 1.16 of the Rules of Professional Conduct, see page 91.)

¹ A conflict that is reasonably anticipated, although not present at the inception of the representation, can be waived in advance with adequate disclosure and consent by the client.

Sample Conflict of Interest Financial Assistance Agreement

June 20, 20-

Mr. John J. Client 123 Main Street Anytown, Louisiana 45678

Dear Mr. Client:

This is a Financial Assistance Agreement between you, Client, and our firm, outlining the terms by which this firm may advance you financial assistance in connection with pending or contemplated litigation, as permitted by Rule 1.8 (e) of the Rules of Professional Conduct and jurisprudence.

Subject to your written consent below, we may advance you any or all of the following:

- Court costs and expenses of litigation, including but not limited to: Filing fees; deposition costs; expert witness fees; transcript costs; witness fees; copy costs; photographic, electronic, or digital evidence production; investigation fees; related travel expenses; litigation related medical expenses; and any other specific expense directly related to our representation. [Your repayment of these expenses advanced by our firm is contingent on the outcome of the matter for which you hired our firm, provided these expenses were reasonably incurred] or [Your repayment of these expenses advanced by our firm is not contingent upon the outcome of the matter for which you hired our firm, and you remain liable to us for these expenses]. We will provide you with a written statement of our specific financial assistance and the timeframe within which you have to repay it;
- [If you are an indigent client, and are unable to pay for legal representation, our firm may pay court costs and expenses of litigation on your behalf];
- Actual invoiced costs incurred solely for purposes of our representation: Computer legal research charges; long distance telephone expenses; postage charges; copying charges; mileage and outside courier service charges .We *cannot* pass on to you any overhead costs that may be incurred by us, which may include, but are not limited to: Office rent; utility costs; charges for local telephone services; office supplies; fixed asset expenses; ordinary secretarial and staff services. [However, if you are paying us at an *hourly rate*, and not at a fixed rate or on a contingency basis, we may advance you reasonable charges for paralegal services. If we do advance paralegal services to you, you will be notified at the beginning of the representation.]
- If your are in necessitous circumstances (after a determination by us that without minimal financial assistance, your case would be adversely affected), we may provide financial assistance to you, in addition to court costs and litigation expenses, as follows:
 - You acknowledge that we have not used this advance or loan guarantee as an inducement by us, or anyone acting on our behalf, to secure employment;
 - You acknowledge that neither our firm, nor anyone acting on our behalf, has offered to make advances or loan guarantees prior to being hired by you, nor that we publicized or advertised a willingness to make advances or loan guarantees to you;
 - Financial assistance may not exceed the minimum sum necessary to meet your needs, and/or your spouse's needs, and/or your dependents' needs for food, shelter, utilities, insurance, non-litigation related medical care and treatment, transportation expenses, education, or other *documented expenses* necessary for living; [Please note that a blanket request for assistance without documented receipts or invoices cannot be honored.]
 - You agree that you will not broadcast to others our financial assistance to you.

Subject to your written consent below, we may advance you financial assistance, with the following restrictions:

- Financial assistance that we may provide to you cannot bear interest, fees or charges of any nature;
- We may use our firm's line of credit or loans obtained from financial institutions in which we have no ownership, control and/ or security interest (unless our ownership, control and/or security interest of a publicly traded financial institution is less than 15%), provided we make reasonable, good faith efforts to obtain a favorable interest rate;
- In using a line of credit or loan, we may not pass on to you interest charges, including any fees or other charges connected to such loans, in an amount exceeding the actual charge by the third party lender, or ten percentage points (10%) above the bank prime loan rate of interest as reported by the Federal Reserve Board on January 15th of each year in which the loan is outstanding, whichever is less;

- We may only provide a guarantee or security on a loan to you to the extent that the interest charges, including any fees or other charges connected to such loans, do not exceed ten percentage points (10%) above the bank prime loan rate of interest as reported by the Federal Reserve Board on January 15th of each year in which the loan is outstanding;
- Prior to the execution of any settlement documents, approval or any disbursement sheet (as provided in Rule 1.5), or upon submission of a bill for our services, we will provide you with a complete text of Rule 1.8 (e), as re-enacted, of the Louisiana Rules of Professional Conduct, effective date of April 1, 2006;

This Agreement is null unless you date and sign below.

Sincerely,

FIRM NAME

ATTORNEY'S NAME (typed or printed)

CLIENT'S NAME (typed or printed)

ATTORNEY'S SIGNATURE

CLIENT'S SIGNATURE

DATE

DATE

WITNESS NAME (typed or printed)

WITNESS'S SIGNATURE

DATE